The Hidden Pitfalls of a Bull Market
5 Investor Biases to Watch

It's been a remarkable year for investors, with asset prices moving up strongly across the board, and in some cases reaching new highs. Well-structured investment portfolios have gained solid ground, creating much to celebrate. But **investing is a long game**, and moments like these can tempt us into complacency.

In the game of investing, the greatest challenge isn't necessarily choosing the next winning stock, fund, or timing the market perfectly—**it's managing your own mind**. Our brains are wired with **psychological biases** that can subtly, yet profoundly, sabotage our financial success. These biases cloud judgment, steer us into poor decisions, and erode the wealth we've worked so hard to build.

Against a backdrop of the 2024's market performance, here are five biases to watch out for :

1. Overconfidence Bias - Overestimating Your Skills

A year of strong returns can make investors believe their success is due to superior skills rather than favourable market conditions. This overconfidence can lead to excessive risk-taking, like doubling down on speculative bets or neglecting diversification.

2. Recency Bias - Assuming the Trend Will Continue

When markets have been on a strong upward trend, it's easy to believe the rally will persist indefinitely. This bias can result in overexposure to high-performing sectors and overly optimistic return expectations.

3. Confirmation Bias - Ignoring Warning Signs

A bull market often encourages selective attention to positive news while dismissing negative indicators. This bias can prevent you from making necessary adjustments to your portfolio.

4. FOMO (Fear of Missing Out) - Chasing High Flyers

Seeing others make significant gains can push investors to jump into hot stocks or sectors without proper due diligence, often at inflated prices (think Nvidia). This reactive approach can lead to buying at the peak of the cycle.

5. Anchoring on Peak Valuations

During a rally, investors often anchor on high prices as the "new normal," making them reluctant to sell even if fundamentals weaken. This can lead to holding onto overvalued investments for too long.

Conclusions

As we head to the close of 2024 and the first quarter of this century, it's a time to celebrate, but also a time for caution. Let's all be aware of these biases, so that we are not tempted to deviate from disciplined strategies.

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